

Message Text

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C O N F I D E N T I A L ROME 18898

LIMDIS GREENBACK

E.O. 11652: GDS

TAGS: EFIN, IT

SUBJECT: ITALIAN FOREIGN OFFICIAL DEBTS AND IMF GOLD SALES

1. SUMMARY. DURING MEETING ON DECEMBER 30, MIN TREAS
DIRECTOR GENERAL PALUMBO GAVE TREASATT HIS VIEWS ON:
A) ADVANCE PAYMENT OF UKPORTION OF EC MEDIUM-TERM
CREDIT TO ITALY, B) PROSPECTS FOR ITALIAN BORROWING UNDER
EC JOINT BORROWING FACILITY, C) POSSIBLE 1976 ITALIAN
DRAWING UNDER IMF OIL FACILITY, D) QUESTION OF PARTIAL
ROLLOVER OF GERMAN GOLD LOAN, AND E) PROSPECTS FOR CENTRAL
BANK PURCHASES OF IMF GOLD THROUGH BIS. END SUMMARY.

2. EC MEDIUM-TERM CREDIT. TREASATT ASKED WHETHER IT
WERE LIKELY THAT UK, IN VIEW OF ITS OWN BALANCE OF PAY-
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MENTS PROBLEMS AND PROSPECTIVE IMF BORROWINGS, MIGHT OPT

OUT OF EC MEDIUM-TERM CREDIT TO ITALY. (ABOUT \$486 MILLION OF \$1885 MILLION OF MEDIUM-TERM CREDIT IS OWED BY ITALY TO THE UK. LATTER HAS NEVER FORMALLY PARTICIPATED IN MEDIUM-TERM CREDIT, BUT HAS SIMPLY REPEATEDLY ROLLED OVER ORIGINAL SHORT-TERM CREDIT.) PALUMBO REPLIED THAT UK HAS CONSIDERED POSSIBILITY OF OPTING OUT. HOWEVER, HE THOUGHT THAT, FOR POLITICAL AND PSYCHOLOGICAL REASONS, UK WOULD DECIDE TO CONTINUE TO ROLL OVER CREDIT AS GESTURE OF EC SOLIDARITY AND IN ORDER TO AVOID GIVING IMPRESSION THAT UK BALANCE OF PAYMENTS POSITION WAS IN CRITICAL STATE. (IF UK OPTED OUT, OTHER EC MEMBERS WOULD HAVE TO CONTRIBUTE EQUIVALENT AMOUNT.)

3. EC JOINT BORROWING FACILITY. TREASATT INQUIRED ABOUT GOI ATTITUDE TOWARD ITALIAN BORROWING THROUGH EC JOINT BORROWING FACILITY. PALUMBO REPEATED THAT GOI CONTINUED TO BE OPEN TO POSSIBILITY OF SUCH BORROWING. BUT, HE WAS DELIBERATELY VAGUE ABOUT DEGREE OF ITALIAN INTEREST, MAKING REFERENCE TO POSSIBLE "ALTERNATIVE" SOURCE OF BORROWING. WHEN ASKED IF ALTERNATIVE MIGHT BE DIRECT LOAN FROM SAUDI ARABIA, PALUMBO ADMITTED THAT THIS IDEA WAS STILL "UP IN THE AIR" AND NOT TO BE COMPLETELY EXCLUDED.

4. IMF OIL FACILITY. PALUMBO ACKNOWLEDGED THAT POSSIBILITY OF FURTHER ITALIAN DRAWING DURING 1976 FROM RESIDUAL FUNDS STILL AVAILABLE UNDER 1975 OIL FACILITY NOW APPEARED RATHER UNLIKELY. WHEREAS PREVIOUSLY IT HAD APPEARED THAT SEVERAL HUNDRED MILLION DOLLARS MIGHT STILL BE AVAILABLE IN 1976, NOW IT LOOKED AS IF AMOUNT MIGHT BE ABOUT \$60 MILLION. THUS, GOI MIGHT NOT SEEK ADDITIONAL DRAWING IN 1976. NEVERTHELESS, IT MIGHT STILL BE RELUCTANT TO RENOUNCE ANY INTEREST IN SUCH A DRAWING, AT LEAST AT THIS STAGE.

5. BUNDESBANK GOLD LOAN. WHILE TREASATT DID NOT DISCUSS THIS QUESTION WITH PALUMBO, FROM PREVIOUS TALKS WITH BOI OFFICIALS IT SEEMS PROBABLE THAT ITALIANS WOULD BE PREPARED TO SEEK PARTIAL EXTENSION OF REMAINING \$1.5 BILLION OF BUNDESBANK GOLD LOAN SCHEDULED TO MATURE IN CONFIDENTIAL

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SEPTEMBER 1976, IF ITALIAN BALANCE OF PAYMENTS SITUATION OR MANAGEMENT OF OFFICIAL RESERVE POSITION SHOULD REQUIRE IT.

6. IMF GOLD SALES. PALUMBO WAS RETICENT ABOUT DISCUSSING POSSIBILITY THAT SOME CENTRAL BANKS MIGHT WISH TO MAKE AT LEAST PRO FORMA PURCHASES OF IMF GOLD THROUGH BIS. HOWEVER, HE SEEMED TO AGREE THAT SOME EUROPEAN CENTRAL

BANKS, INCLUDING SOME WHICH ARE NOT MEMBERS OF IMF
AND, THEREFORE, NOT SUBJECT TO IMF RULES (E.G., SWITZERLAND),
MIGHT PURCHASE SOME GOLD SO AS TO REASSURE MARKET THAT
THERE WOULD BE SOME SUPPORT FROM CENTRAL BANKS IF NECESSARY
TO AVOID ANY FUTURE SHARP DROP IN FREE MARKET PRICE OF GOLD.

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